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Market Snapshot - Taiwan's Retail Food Sector

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Report Highlights:

Taiwan's retail food sector is becoming increasingly competitive. Challenges in the middle tier and low-priced markets include decreased sales of premium products due to the recent economic slowdown. Nevertheless, there are great opportunities for U.S. exporters as the growth of premium retail chains continues unabated. Gourmet food importers are increasing imports of premium meats, condiments and health foods, but lower-priced supermarkets will continue to rely on brand recognition and pricing compatibility in wholesale purchase decision-making.

General Information:
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The Agricultural Trade Office (ATO) in Taipei interviewed company executives and managers at three large supermarkets representing the three subsectors of Taiwan's retail food market: City Super (high-end), Sung Ching/Matsusei (medium-priced), and PX Mart (discount). Each market category prioritizes distinct factors for overall import purchasing decisions, but brand recognition and proven success overseas are important factors for each retail subsector. The interviews also provided insight into food product trends in the Taiwan market, which often serves as a harbinger for coming trends in the greater China market.

Market Overview

City Super: High End Grocer -- Small But Growing

Luxury retail grocers represent a growing niche market in Taiwan. As Taiwan travelers continue to go abroad in large numbers to vacation and conduct business, their appreciation and expectation of food diversity has created room for high end retailers such as City Super. The Taiwan subsidiary of Hong Kong's City Super franchise currently has three supermarkets in Taipei with plans to double the number of stores in Taiwan by 2012. Although inflation and other factors have generated greater competition among discount retailers in Taiwan, City Super's client base of high-income professionals has not curbed spending on expensive imported gourmet food. This loyalty to imported food is both a function of higher expendable incomes and a growing concern about food safety.

City Super stores typically range from 400 to 600 meters² in size and are located within the high-end Sogo Department stores. The retail outlet's grocery and fresh produce sections feature gourmet imports largely from Japan, Europe, the United States and a number of South American countries, with a significant number of wine and preserved fruit imports from Argentina and Chile. In the past, City Super took its product purchasing lead from its Hong Kong headquarters, which tested new products' success in Hong Kong before sourcing directly for Taiwan. As Taiwan's City Super expands its own reach into Southern and Central Taiwan, the company plans to develop direct relationships with new exporters and suppliers in the hopes of eventually creating a more tailored procurement approach.

City Super's CEO cited quality, brand recognition, and brand exclusivity as major factors when considering new imported products for the retailers' customers. Although large quantities of Western products are sold in Taiwan, the majority of Taiwan's imported snacks and condiments still come from Japan. City Super executives noted that Japanese suppliers are more proactive and engaged than their Western counterparts in marketing directly to consumers. Japanese suppliers have consistently used live cooking demonstrations at City Super outlets to introduce new Japanese ingredients and products. This has helped

influenced Taiwan customers at the check-out lane and generated greater brand recognition. City Super's executives noted that though local Western trends are now leaning towards French and Italian cooking, Taiwan shoppers are still reluctant to buy foreign sauces or ingredients that they've never tried or heard of before. Some Western suppliers have followed suit by showcasing goods through the use of chef demonstrations. ATO Taipei's recent American Block Party collaboration with City Super also helped to demystify some American products for Taiwan consumers.

"Exclusive" label deals also heavily influence wholesale purchasing decisions at high-end supermarkets. City Super cites competition with other supermarkets as a main deterrent for purchasing traditional brands that are already heavily represented in Taiwan. High-income consumers are willing to pay higher prices for quality products that cannot be purchased elsewhere, but U.S. exporters of premium products will have to balance the desire for broader brand recognition with the tangible limitations of exclusivity.

PX Mart: Bargain-Priced Food Retailer -- Large And Expanding

As Taiwan's retail industry has become increasingly competitive, recent global financial fluctuations have resulted in greater price sensitivity among Taiwan's bargain retail food customers. PX Mart's reputation for providing lower-prices for goods identical to those sold at medium-priced markets has fueled its growth from only 68 stores in 1998 to just under 600 stores in 2011. In response to declining sales five years ago and in an attempt to mirror product selections at mid-tier competitors, PX Mart began to offer a "Fresh Section," which provides consumers with additional produce options, including fruits, vegetables, meat, seafood, and baked goods. The chain has also varied store footprints to conform to the size of each individual store's target community. The smallest PX mart store is about 3,300 sq. ft which is approximately 1/4th the size of its largest store, which averages about 14,000 sq. ft.

PX Mart attracts new customers by providing discounted goods with prices as much as 15% below Costco prices and 20% below other middle-tier supermarket for identical products. Although discounting has generated more sales, it has also reduced PX Mart's margins. Nevertheless, with 600 markets and plans to develop 200 additional stores within the next five years, PX Mart has become an attractive platform for introducing U.S. food products to the Taiwan public. Discount chains such as PX Mart are now also moving towards creating centralized distribution systems to simplify dealings with foreign suppliers and support higher-volume purchases.

In addition to products from the United States, large-volume discount retail grocers have also attracted interest from exporters in Japan, Korea, Canada, and the United Kingdom. PX Mart executives outlined three primary concerns when considering prospective new suppliers and goods for its growing number of retail outlets:

- Low Prices - While Taiwan's per capita GDP Purchasing Power Parity (PPP) is USD \$35,700, discount retailer customers will buy American products in lieu of other imports only if priced competitively.
- Brand Recognition - Bargain food retailers have lower margins and rely on a product's

existing overseas brand recognition to support high volume purchases. Existing brand recognition also eliminates marketing costs.

- Distribution Support - Lower margins have resulted in a heavy reliance on exporters to provide distribution and delivery support. At PX Mart, profits and payments are shared on a Just-In-Time basis, and suppliers also need to pay for shelf space and in-store displays.

Sung Ching/Matsusei: Mid-Tier Market -- A Dying Breed?

Market share for middle tier supermarkets has dwindled as Taiwan's middle and low-income shoppers flock toward discount retailers for imported goods at lower prices. Coupled with high income earners' growing loyalty towards gourmet food retailers and the emergence of "exclusive" branding deals at these stores, Taiwan's traditional middle-tier supermarket chains have been impacted. According to the Managing Director at Sung Ching/Matsusei Supermarket, many consumers are now switching to bargain grocers for the same goods.

Nevertheless, Matsusei maintains that its decline in sales is primarily the result of recession-induced price sensitivities among its middle-income client base.

Matsusei has responded to these changes by tailoring each store's product selection to suit the tastes of individual communities. However, as both the gourmet and bargain supermarket chains are taking pains to systematically implement greater product and pricing uniformity within their supermarkets, Matsusei's community-based product selection may garner mixed results. Matsusei's management indicated that although price is the most important factor in considering imports, the product's quality and its packaging size are also key factors in wholesale purchase considerations for imported goods. Middle-income earners in Taiwan often have smaller families and are less likely to purchase large packages of goods or invest in trying new, expensive food products. This price and size sensitivity is especially important for fresh produce and gift packs, which often have firm expiration dates. Thus, Matsusei's buyers typically refrain from wholesale purchases of imported goods with large-sized packaging and will instead opt for medium to small-sized packaging that will hold more appeal for middle-income earners.

Taiwan Retail Food Product Trends

Despite divergent corporate procurement and sales strategies, the three primary subsectors of Taiwan's retail grocery market provide similar insight on emerging consumer trends in Taiwan:

- Customized Flavors - East Meets West

In Taiwan grocery stores, convenience has added a western twist. The instant noodle sections at most grocery stores now sell "Chicken Alfredo" and "Italian" flavors alongside more traditional favorites. Manufacturers have also caught on to the new opportunities through flavor customization. Popular hybrids now include items such as Shrimp BBQ flavored Doritos chips.

- Healthy Eating

Whole grains, oatmeal, and muesli are becoming new staples for health-conscious consumers. Gourmet shoppers are also beginning to favor organic goods, which was initially not a popular concept in Taiwan.

- "European" Flavors

Taiwan consumers have discovered European cuisine through increased travel to Europe over the last decade. Products advertising Italian, French and even British flavors are highly popular among middle and upper class consumers.